

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF HART	County OCEANA
Audit Date 3/31/06	Opinion Date 8/3/06	Date Accountant Report Submitted to State: 9/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRICKLEY DELONG PLC			
Street Address 500 TERRACE PLAZA PO BOX 999		City MUSKEGON	State MI
		ZIP 49443	
Accountant Signature <i>Timothy D. Carter, CPA for Brickley DeLong, PLC</i>		Date 9/28/06	

Township of Hart
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Township of Hart

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As management of the Township of Hart, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township of Hart for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- The General Fund balance increased by \$21,037.
- The DDA's fund balance increased by \$26,851.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The Township does not have any business-type activities.

The government-wide financial statements include not only the Township of Hart (the primary government) but also a legally separate discretely presented component unit, the Downtown Development Authority (DDA). A majority of the board of this organization is appointed by the Township Supervisor and the remainder of the board is appointed by the mayor of the City of Hart. Given the interrelation of the DDA and the Township, there is some potential liability for the Township due to the Township's pledge of its full faith and credit for debt obligations. The financial information of this component unit is reported in a separate column from the financial information of the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Township of Hart maintains one governmental fund, the General Fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide Statement of Net Assets for the Township of Hart. The current assets increased by \$13,489 due to an increase in net assets. Capital assets increased due to the purchase of a new sprinkler and well system at Kuhne Park, a new roof put on the Township hall and the State of Michigan donated a new optical scan voting machine to the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Township's net assets from governmental activities totaled \$383,546.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$343,264. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2006	2005
Current assets and other assets	\$ 365,545	\$ 352,056
Capital assets	40,282	14,665
Total assets	405,827	366,721
Current liabilities	22,281	28,571
Net assets		
Invested in capital assets	40,282	14,665
Unrestricted	343,264	323,485
Total net assets	\$ 383,546	\$ 338,150

Governmental Activities

Governmental activities increased by \$45,396 (13%) during the 2006 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Property tax revenues increased primarily due to normal inflationary increases in taxable value. Investment earnings increased due to higher interest rates. Public safety costs increased due to an increase in required contributions to the Hart Area Fire Board. Public works decreased due to less road construction done during the year.

Change in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues		
Charges for services	\$ 3,925	\$ 3,970
General revenues		
Property taxes	78,884	65,295
Grants and contributions	144,420	137,943
Unrestricted investment earnings	10,466	8,711
Miscellaneous	9,721	13,906
Total revenues	247,416	229,825
Expenses:		
General government	146,901	145,473
Public safety	33,431	22,226
Public works	8,597	14,447
Community and economic development	9,450	8,302
Culture and recreation	3,641	833
Total expenses	202,020	191,281
Change in net assets	45,396	38,544
Net assets - Beginning	338,150	299,606
Net assets - Ending	\$ 383,546	\$ 338,150

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Township's governmental funds reported a combined unreserved fund balance of \$253,476, all of which is in the General Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance of \$5,814 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate commitments and purchase orders. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$259,290, which is all in the General Fund.

The General Fund had an increase in fund balance of \$21,037 due to lower than anticipated fringe expenses for the Township board and lower than anticipated billings from the Hart Area Fire Board for public safety costs.

General Fund Budget

During the current fiscal year, the Township made a few amendments to its original budget. The most significant of those is listed below:

- The original building and grounds budget was decreased by \$7,495 because the Township needed to balance its budget.
- The original cemetery budget was increased by \$4,155 because the Township was anticipating higher billings from the Hart Cemetery.
- The original public safety budget was increased by \$8,900 because the Township was anticipating higher billings from the Hart Area Fire Board.
- The original capital outlay budget was decreased by \$5,560 because the Township had originally planned on developing a Township master plan, which did not materialize.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

Revenues

- Property taxes were lower than budgeted because the Section 425 revenues were lower than expected.

Expenditures

- Township Board expenditures were under budget because fringe benefits were lower than anticipated.
- Public safety expenditures were under budget because the billings from the Hart Area Fire Board were lower than expected.

Capital Assets Administration

The Township of Hart's investment in capital assets for its governmental activities as of March 31, 2006 totaled \$40,282 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, leasehold improvements and equipment. Major capital asset events during the current the year included the purchase of a new sprinkler and well system for Kuhne Park for \$12,797, a new roof on the Township hall for \$10,120 and the donation of a optical scan voting machine from the State of Michigan for \$4,800.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2006	2005
Land	\$ 13,440	\$ 13,440
Land improvements	12,424	1,225
Leasehold improvements	9,183	-
Equipment	5,235	-
Total	<u>\$ 40,282</u>	<u>\$ 14,665</u>

Additional information on the Township's capital assets can be found in Note E of the "Notes to Financial Statements" of this report.

General Economic Overview

The General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 88% of the General Fund revenue sources. The state revenues are affected by the State of Michigan budget along with sales tax collections. State revenue sharing is not expected to increase in fiscal year 2007. Property tax revenues are expected to increase 3 to 4 percent due to normal inflationary increases in taxable value.

The Township is trying to keep expenditures steady during the fiscal year 2007, but the Township is anticipating parks expenses to increase due to increase watering and mowing at the soccer field.

Requests for Information

This financial report is designed to provide a general overview of the Township of Hart's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Township of Hart, 3437 W. Polk Road, PO Box 740, Hart, Michigan, 49420, (231) 873-2734.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 31, 2006

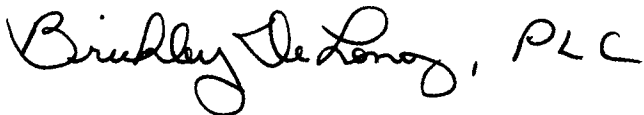
Township Board
Township of Hart
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Hart, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Hart, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Hart, Michigan, as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 17 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Township of Hart
STATEMENT OF NET ASSETS
 March 31, 2006

ASSETS

	Governmental activities	Component Unit Downtown Development Authority
CURRENT ASSETS		
Cash and investments	\$ 243,631	\$ 93,629
Receivables		
Property taxes	9,087	-
Land contract	1,350	-
Due from other governmental units	23,039	-
Prepaid items	5,814	-
Total current assets	282,921	93,629
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable	13,440	-
Depreciable	26,842	-
Land contract receivable, less current portion	82,624	-
Total noncurrent assets	122,906	-
Total assets	405,827	93,629
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	12,442	-
Due to other governmental units	9,839	-
Total liabilities	22,281	-
NET ASSETS		
Invested in capital assets	40,282	-
Unrestricted	343,264	93,629
Total net assets	\$ 383,546	\$ 93,629

The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF ACTIVITIES
For the year ended March 31, 2006

			Net (Expense) Revenue and Changes in Net Assets	
			Primary Government Governmental activities	Component unit Downtown Development Authority
<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue Charges for services</u>		
Primary government				
Governmental activities				
General government	\$ 146,901	\$ -	\$ (146,901)	\$ -
Public safety	33,431	-	(33,431)	-
Public works	8,597	-	(8,597)	-
Community and economic development	9,450	3,925	(5,525)	-
Culture and recreation	<u>3,641</u>	<u>-</u>	<u>(3,641)</u>	<u>-</u>
Total governmental activities	<u>\$ 202,020</u>	<u>\$ 3,925</u>	(198,095)	-
Component unit				
Downtown Development Authority				
Economic development	<u>\$ -</u>	<u>\$ -</u>	-	-
General revenues				
Property taxes			78,884	26,562
Grants and contributions not restricted to specific programs			144,420	-
Unrestricted investment earnings			10,466	289
Miscellaneous			<u>9,721</u>	<u>-</u>
Total general revenues			<u>243,491</u>	<u>26,851</u>
Change in net assets			45,396	26,851
Net assets at April 1, 2005			<u>338,150</u>	<u>66,778</u>
Net assets at March 31, 2006			<u>\$ 383,546</u>	<u>\$ 93,629</u>

The accompanying notes are an integral part of this statement.

Township of Hart
BALANCE SHEET
 Governmental Funds
 March 31, 2006

	General Fund
ASSETS	
Cash and investments	\$ 243,631
Property taxes receivable	9,087
Due from other governmental units	23,039
Prepaid items	5,814
Total assets	\$ 281,571
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 7,360
Accrued liabilities	5,082
Due to other governmental units	9,839
Total liabilities	22,281
Fund balance	
Reserved for prepaid items	5,814
Unreserved	
General Fund	253,476
Total fund balance	259,290
Total liabilities and fund balance	\$ 281,571

The accompanying notes are an integral part of this statement.

Township of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2006

Total fund balance—governmental funds	\$	259,290
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 44,657	
Accumulated depreciation	<u>(4,375)</u>	40,282

Certain receivables in governmental activities are not available to pay for current period
expenditures and are not reported in the governmental funds.

83,974

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>383,546</u></u>
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The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Governmental Funds
 For the year ended March 31, 2006

	General Fund
REVENUES	
Property taxes	\$ 78,884
Licenses and permits	3,925
Intergovernmental revenues - state	144,420
Investment earnings	10,466
Other	10,979
Total revenues	248,674
EXPENDITURES	
Current	
General government	145,123
Public safety	33,431
Public works	8,597
Community and economic development	9,450
Culture and recreation	3,268
Capital outlay	27,768
Total expenditures	227,637
Net change in fund balance	21,037
Fund balance at April 1, 2005	238,253
Fund balance at March 31, 2006	\$ 259,290

The accompanying notes are an integral part of this statement.

Township of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**
 For the year ended March 31, 2006

Net change in fund balance—total governmental funds	\$	21,037
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(2,100)	
Capital outlay		<u>27,717</u>	25,617

Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets.		<u>(1,258)</u>
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Change in net assets of governmental activities	\$	<u><u>45,396</u></u>
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The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
March 31, 2006

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>15,572</u>
LIABILITIES	
Due to other governmental units	\$ <u>15,572</u>

The accompanying notes are an integral part of this statement.

Township of Hart
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Hart (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township is a municipal corporation governed by an elected five-member Board and is administered by a Township Supervisor. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The discretely presented component unit has a March 31 fiscal year end.

Discretely Presented Component Unit

Downtown Development Authority (DDA). A majority of the DDA board is appointed by the Township Supervisor and the remainder is appointed by the mayor of the City of Hart, but the Authority operates as a separate entity. The component unit is presented as a governmental fund type.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Township's investment pool.

Receivables and Payables

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately \$58,000,000. The ad valorem taxes levied consisted of 1.1837 mills for the Township's general operations. This amount is recognized in the General Fund.

The DDA receives its property tax revenue from the City of Hart through the Section 425 agreement.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Leasehold improvements	9
Equipment	5-15

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to March 31, the Township clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

Excess of Expenditures Over Appropriations

During the year ended March 31, 2006, actual expenditures exceeded appropriations for:

	<u>Amended budget</u>	<u>Actual</u>
General Fund		
Assessor	\$ 14,675	\$ 16,045
Parks	2,500	3,268

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, \$254,536 of the Township's bank balance of \$353,062 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—LAND CONTRACT RECEIVABLE

The Township sold a building through a land contract. The agreement requires monthly payments of \$599 at 7 percent interest with a final balloon payment due by September 2008.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,440	\$ -	\$ -	\$ 13,440
Capital assets, being depreciated:				
Land improvements	-	12,797	-	12,797
Leasehold improvements	-	10,120	-	10,120
Equipment	3,500	4,800	-	8,300
Total capital assets, being depreciated	3,500	27,717	-	31,217
Less accumulated depreciation:				
Land improvements	-	373	-	373
Leasehold improvements	-	937	-	937
Equipment	2,275	790	-	3,065
Total accumulated depreciation	2,275	2,100	-	4,375
Total capital assets being depreciated, net	1,225	25,617	-	26,842
Capital assets, net	\$ 14,665	\$ 25,617	\$ -	\$ 40,282

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:	
General government	\$ 1,727
Culture and recreation	373
	<u>2,100</u>
	<u>\$ 2,100</u>

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE F—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability and property risk as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years

NOTE G—PENSION PLANS

Defined Contribution Plan

The Township maintains a defined contribution retirement plan administered by John Hancock that covers all of its employees. The Plan requires the Township to contribute an amount equal to 9 percent of the employee's annual compensation each plan year and employees are required to contribute 3 percent of their annual compensation. The Township's contribution for the year ended March 31, 2006 was \$5,425 and the employees' contributions were \$1,808.

NOTE H—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 56 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Hart
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 85,170	\$ 85,170	\$ 78,884	\$ (6,286)
Licenses and permits	3,850	3,850	3,925	75
Intergovernmental revenues - state	145,500	145,500	144,420	(1,080)
Investment earnings	10,400	10,400	10,466	66
Other	10,885	10,885	10,979	94
Total revenues	255,805	255,805	248,674	(7,131)
EXPENDITURES				
Current				
General government				
Township Board	51,150	51,150	42,897	8,253
Township supervisor	7,900	7,900	7,650	250
Elections	1,400	1,400	1,202	198
Board of review	1,750	1,750	767	983
Clerk	12,725	12,725	12,901	(176)
Treasurer	17,745	17,745	16,492	1,253
Assessor	14,675	14,675	16,045	(1,370)
Building and grounds	38,200	30,705	29,674	1,031
Cemetery	17,500	21,655	17,495	4,160
Public safety	31,275	40,175	33,431	6,744
Public works				
Roads	10,500	10,500	7,247	3,253
Street lighting	1,700	1,700	1,350	350
Community and economic development				
Planning	10,635	10,635	9,450	1,185
Culture and recreation				
Parks	2,500	2,500	3,268	(768)
Capital outlay	36,150	30,590	27,768	2,822
Total expenditures	255,805	255,805	227,637	28,168
Net change in fund balance	\$ -	\$ -	21,037	\$ 21,037
Fund balance at April 1, 2005			238,253	
Fund balance at March 31, 2006			\$ 259,290	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 31, 2006

Township Board
Township of Hart
Hart, Michigan

In planning and performing our audit of the financial statements of the Township of Hart for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township of Hart's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

Fixed Assets

Recommendation 1: A written capitalization policy should be developed.

During our audit, we noted that the Township does not have a written policy regarding which items are to be capitalized and which items should be expensed.

The development of a formal written capitalization policy would assist the Township's personnel in their decisions regarding the general ledger account an item should be charged to.